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TO AMEMBASSY JAKARTA

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TAGS: EAGR, TH

SUBJECT: RICE STRATEGY

REF: BANGKOK 10974

1. DEPARTMENT APPRECIATES EMBASSY ANALYSIS OF RICE SITUATION AND CONCERN OVER POTENTIAL IMPACT THAT LARGE SALES OF U.S. RICE, ESPECIALLY UNDER PL 480, COULD HAVE ON U.S.-THAI RELATIONS AND OUR OVERALL POLITICAL/MILITARY INTERESTS THERE. AS EMBASSY IS AWARE PL 480 RICE PROGRAM HAS BEEN SOURCE OF CONCERN IN PAST IN OUR RELATIONS WITH THAILAND. BECAUSE OF COMPLEX INTERMIXTURE OF DOMESTIC POLITICAL AND ECONOMIC FACTORS AS WELL AS FOREIGN POLICY CONSIDERATIONS, IT IS NOT SUSCEPTIBLE TO EASY RESOLUTION. SUCH ISSUES MUST BE EXAMINED WITHIN THE CONTEXT OF THE TOTALITY OF U.S. INTERESTS AND OBLIGATIONS.

2. EMBASSY ANALYSIS AND PROPOSALS WERE CLOSELY REVIEWED
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IN STATE AND AGRICULTURE. HOWEVER, WE ARE UNABLE TO

AGREE WITH SEVERAL IMPORTANT ELEMENTS OF EMBASSY'S ANALYSIS. THAILAND IS NO LONGER A ONE CROP ECONOMY.

WITH DIVERSIFICATION OF THAI AGRICULTURE INTO OTHER COMMODITIES AND THE INCREASING IMPORTANCE OF MANUFACTURED EXPORTS, WE DOUBT ANY FORESEEABLE INCREASE IN U.S. RICE EXPORTS COULD SERIOUSLY CHALLENGE THE "VIABILITY OF THE WHOLE THAI ECONOMY." MOREOVER, THE GENERAL CONCLUSION THAT CURRENT SITUATION WILL LEAD TO "SHORT TERM GLUT ON THE RICE MARKET" DOES NOT APPEAR REALISTIC. WITH PRICES CURRENTLY THREE TIMES THOSE OF TWO YEARS AGO AND U.S. PRODUCTION AND TRADE IN 1973-74 REPRESENTING ONE PERCENT AND 25 PERCENT OF RESPECTIVE WORLD LEVELS, PREDICTIONS OF A PENDING "GLUT" SEEM SOMEWHAT OVERDRAWN, ESPECIALLY SINCE WORLD RICE STOCKS ARE VIRTUALLY NON-EXISTENT. BURMA -- THE WORLD'S FOURTH LARGEST EXPORTER -- RECENTLY LOWERED CY 1974 EXPORT AVAILABILITIES BY ONE FOURTH. AT THE SAME TIME DEMAND IS CONTINUING TO RISE.

3. AT PRESENT, FY 1975 RICE EXPORTS FROM THE U.S. ARE PROJECTED AT 2.0 MILLION TONS, ONLY 17 PERCENT ABOVE THE LEVEL FOR EACH OF THE PRECEDING THREE YEARS. COMMERCIAL EXPORTS ARE EXPECTED TO EQUAL FY 1974 PERFORMANCE, ALTHOUGH SHIPMENTS UNDER PL 480 -- ABNORMALLY LOW IN FY 1974 -- SHOULD AGAIN APPROACH THE 1971-72 AND 1972-73 LEVELS OF APPROXIMATELY ONE MILLION TONS, AND COULD BE SLIGHTLY HIGHER ACCORDING TO CURRENT PROJECTIONS. ABOUT 40 PERCENT OF PROJECTED 1974-75 RICE SHIPMENTS UNDER PL 480 ARE DESIGNATED FOR VIETNAM AND CAMBODIA. MUCH OF THE REMAINDER WILL PROBABLY BE MADE AVAILABLE TO INDONESIA AND KOREA TO MEET PRIOR COMMITMENTS TO THOSE COUNTRIES. ONLY THE FORMER COULD BE CONSIDERED AS A "TRADITIONAL" THAI MARKET. PROJECTED PL 480 RICE SALES TO INDONESIA ARE NOT EXPECTED TO BE ABOVE 1971-72 LEVELS WHEREAS INDONESIAN IMPORT REQUIREMENTS HAVE SUBSTANTIALLY INCREASED. AS IN PAST, MATTER BEST BE DISCUSSED BETWEEN INDONESIA AND THAILAND DIRECTLY. WE DO NOT ANTICIPATE PL 480 SHIPMENTS TO HONG KONG, SINGAPORE AND MALAYSIA. MOREOVER, AS FAR AS COMMERCIAL TRANSACTIONS ARE CONCERNED, THE U.S. IS USUALLY A RESIDUAL SUPPLIER TO THESE MARKETS.

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4. IT IS NECESSARY THAT POLICY ON THIS, AS WELL AS OTHER COMMODITIES, BE RELATED TO OUR OVERALL WORLDWIDE INTERESTS. THERE HAS BEEN A STEEP RISE IN CEREAL PRICES DURING THE PAST TWO YEARS. OVER THE PAST YEAR THE DEPARTMENT HAS BEEN DELUGED WITH REPORTS TRANSMITTED

BY EMBASSIES IN DEVELOPING COUNTRIES AFFECTED BY

SOARING FOODGRAIN IMPORT BILLS. THE ABILITY OF MANY COUNTRIES TO FINANCE FOOD IMPORTS HAS BEEN FURTHER IMPAIRED BY THE RECENT SHIFT IN THE PETROLEUM PRICE LEVEL. PREVIOUSLY STABLE GOVERNMENTS ARE FACED WITH MOUNTING SOCIAL UNREST; MANY HAVE COME UNDER WIDESPREAD ATTACK BECAUSE OF RISING FOOD PRICES.

5. PARTIALLY IN CONSIDERATION OF THESE DEVELOPMENTS, USDA AGREED IN 1972 TO EXPAND THE ACREAGE ALLOTMENT FOR RICE (AND OTHER GRAINS). THEREFORE THE 1974-CROP ALLOTMENT FOR RICE COVERS 2.1 MILLION ACRES COMPARED WITH 1.84 MILLION ACRES TWO SEASONS AGO. IF PRODUCTION FROM THIS ACREAGE SHOULD BRING ABOUT EVEN A 50 PERCENT AVERAGE DECLINE IN PRICES DURING THE COMING YEAR, THE RESULTING FIGURE WOULD STILL BE ABOUT 100 PERCENT HIGHER THAN THE PREVAILING BANGKOK EXPORT PRICE LEVEL DURING CY 1972. WE BELIEVE THE RTG RECOGNIZES THAT THE EXTRAORDINARY CONDITIONS PREVAILING IN INTERNATIONAL RICE MARKETS SINCE EARLY 1973 STEM PRIMARILY FROM THE FIVE PERCENT DROP IN THE WORLD HARVEST RECORDED IN THE 1972-73 SEASON.

6. CONCERNING SUGGESTIONS CONTAINED IN PARA. 8 REFTEL, WE DO NOT BELIEVE ALTERNATIVE (A) OFFERS VIABLE COURSE OF ACTION. ESTABLISHMENT OF RICE RESERVE WOULD SOON DEPRESS U.S. MARKET AND LEAD TO CUTBACKS IN PLANTED ACREAGE IN COMING SEASON. GIVEN THE TIME LAG INVOLVED IN RAISING PRODUCTION, A POTENTIAL CUTBACK IN PLANTED ACREAGE IN FY 1975 WOULD REDUCE AVAILABILITIES DURING THE TRANSITION PERIOD FROM A SURPLUS TO A SHORTAGE SUPPLY-DEMAND BALANCE IN INTERNATIONAL RICE TRADE NOTED IN REFTEL. MOREOVER, THERE IS THE PROBLEM OF FINANCING SUCH A RESERVE, ESPECIALLY AT PRESENT HIGH LIMITED OFFICIAL USE

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PRICES. IN REGARD TO (B), USG MAINTAINS POLICY OF CONSIDERING APPROPRIATE SAFEGUARDS ON CONCESSIONAL PL 480 SALES IN ASIA. WE ANTICIPATE CONTINUING TO COVER TOTAL RICE IMPORT NEEDS OF VIETNAM AND CAMBODIA WHERE OUR SPECIAL INTERESTS ARE WELL KNOWN. SHOULD RICE BE PROGRAMMED TO KOREA AND INDONESIA, WE BELIEVE THE ESTABLISHMENT OF USUAL MARKETING REQUIREMENTS OR OTHER

APPROPRIATE SAFEGUARDS WOULD PROTECT THAI INTERESTS.

7. SUGGESTIONS (C) AND (D) HAVE MERIT. WE ARE PREPARED TO DISCUSS COOPERATION IN THE RICE TRADE IN THE CONTEXT OF ANY WASHINGTON ECONOMIC CONSULTATIONS, AND IN FACT WOULD NOT OPPOSE SUCH A BILATERAL EXCHANGE WITH THE RTG IN ORDER TO CLEAR THE AIR VN THIS PROBLEM. CONCERNING

MULTILATERAL DISCUSSIONS, THERE WILL BE OCCASIONS IN THE
NEAR FUTURE TO CONSULT AMONG PRODUCER AND CONSUMER
COUNTRIES AS SUGGESTED UNDER ALTERNATIVE (D). HOWEVER,
USG CONTINUES TO OPPOSE ATTEMPTS TO ESTABLISH RESTRICTIVE
COMMODITY AGREEMENTS OR SIMILAR ARRANGEMENTS ON RICE, AS
WELL AS OTHER PRODUCTS, OR ANY CARTEL TYPE DIVISION OF
MARKETS. TWO FORTHCOMING INTERNATIONAL MEETINGS WILL BE
THE WORLD FOOD CONFERENCE SCHEDULED FOR NOVEMBER 5-16
IN ROME AND THE FAO INTERGOVERNMENTAL GROUP ON RICE
TENTATIVELY SCHEDULED FOR JANUARY 1975. INGERSOLL

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